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ANALYSIS OF FISCAL YEAR 1988 BUDGET PROPOSALS FOR VETERANS' BENEFITS AND SERVICES

COMMITTEE ON VETERANS' AFFAIRS

U.S. HOUSE OF REPRESENTATIVES 100TH CONGRESS

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[NOTE.—This document is composed of two parts; the first part is a *summary* of the major issues in the President's budget; the second part consists of additional background and analysis of selected issues.]

SUMMARY OF MAJOR ISSUES IN PRESIDENT'S 1988 BUDGET RECOMMENDATION

SUBCOMMITTEE ON HOSPITALS AND HEALTH CARE

1. Along with the President's proposed budget for fiscal year 1988, a $75 million rescission for fiscal year 1987 is proposed to eliminate funding to provide hospital, outpatient, and nursing home care services to nonservice-connected veterans in eligibility Category C (single veterans with an income of $20,000 or more and $25,000 or more with one dependent) during the last 5 months of fiscal year 1987. This new policy could have a significant long-term influence on the delivery of health care in the Veterans' Administration.

2. Other fiscal year 1987 actions in this budget include a supplemental request for $75 million for a civilian pay raise and $132 million for Federal Employees Retirement System (FERS) costs. This is only half of the total pay raise cost; the other half would be absorbed in the VA's budget.

3. The President proposes a fiscal year 1988 Medical Care budget of $9.968 billion in budget authority. This is an increase of $414 million over the fiscal year 1987 budget. This modest increase over last year will not provide funds for current services and, in fact, is a proposed workload reduction of 9,686 inpatient beneficiaries treated and 113,000 medical outpatient visits. This workload reduction is the result of staff cuts of 1,400 FTEE proposed in the fiscal year 1987 rescission and 2,410 FTEE in fiscal year 1988 for a grand total of 3,810 fewer medical care staff to provide hospital care to veterans.

4. The Medical and Prosthetic Research budget for fiscal year 1988 is $212 million in budget authority, which is a $2.2 million increase over last year. However, the medical research personnel staff level is reduced by 225 FTEE from last year for a staff level of 4,417. The request provides $2.4 million for a Women Vietnam Veterans epidemiology study and $4 million for transfer to the Centers for Disease Control to continue the Agent Orange epidemiology study begun in 1984. Legislation is being proposed to extend the availability of a $20 million appropriation transfer from the Department of Defense for a DOD/VA cooperative research program from two years to four years to allow sufficient time to complete started projects. Inasmuch as the Research program is labor intensive, there is concern with the impact of the proposed reduction in

staff and the possible constraint on the utilization of the additional funding intended for this important program.

5. The President's proposed budget for the Medical Administration and Miscellaneous Operating Expenses account includes an increase of $7.6 million from last fiscal year. The majority of this increase ($6 million) is to reactivate the Health Professional Scholarship program which was designed by the Congress to enhance the VA's efforts in the recruitment and retention of health care personnel. The Administration permitted the program to become inactive last year by not requesting funds. Today, many of the VA medical centers are experiencing grave recruitment and retention problems of certain health care staff, including registered nurses.

6. The budget request provides $42 million in budget authority for grants for construction of State Extended Care facilities. This is a reduction of $400,000 from last year's budget.

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE

COMPENSATION

1. The President's budget proposes a 3.5 percent cost-of-living adjustment (COLA) for service-connected disabled veterans and for survivors of veterans who died of service-connected causes. The budget requests $301 million for this COLA.

2. The Administration also proposes that future compensation COLAs be indexed to the changes in the Consumer Price Index in the same manner as the nonservice-connected pension program. Indexing the compensation COLAs in this manner would eliminate the need for annual legislative action, but would not leave the Committee with an effective vehicle through which refinements to the program could be made without the threat of a veto.

3 A proposed revision to the Rating Schedule that would increase the maximum schedular rating for hearing loss from 80 percent to 100 percent (resulting in an estimated benefit cost of $30 million) was recently disapproved by OMB on the basis that there was insufficient justification to support the average loss of hearing capacity at each level of disability. OMB returned the proposal to the VA, recommending that the VA conduct a thorough economic validation study of the proposal. For the first time in history, impairment of earning capacity would be measured in budgetary requirements rather than in percentage of impairment.

PENSION

The budget requests $92.3 million for a 3.5 percent COLA in the indexed nonservice-connected pension program, based on the anticipated change in the Consumer Price Index.

GENERAL OPERATING EXPENSES

1. The budget calls for a reduction of 255 staff in the regional office activity that processes claims for disablity, death, and education benefits. Available statistics show that current service is grossly deficient. A further decrease in personnel would only further aggravate the deficiency.

2. The budget requests $34.4 million (an increase of $7.8 million above 1987) for continuation of the Department of Veterans Benefits (DVB) computer modernization initiative begun last year—a $150 million, 6-year project. The primary focus in 1988 will be the purchase of hardware and software for the regional office applications, which will enhance service to veterans while making office operations more efficient.

SUBCOMMITTEE ON EDUCATION, TRAINING AND EMPLOYMENT

1. The President's budget includes a recommendation to make the New GI Bill a permanent program. However, it will also report legislation to reduce the current benefit level. It also requires the Department of Defense (DOD) to budget for all benefit costs associated with the New GI Bill, even though the primary purpose of the New GI Bill is to provide readjustment benefits for those who serve. Under current law, this education program for the All Volunteer Force terminates for new entrants on July 1, 1988. The basic benefit is funded by the Veterans' Administration (VA) while DOD funds all costs associated with the "kicker" program and the program for the reserve components.

2. Included in the President's budget is a proposal to repeal the authority that permits the VA to make education loans, effective October 1, 1987. This is the fourth year the Administration has recommended terminating this program which provides loans to persons training under chapter 34 or 35, citing an excessively high default rate.

3. The Veterans' Job Training Act (VJTA), established by Public Law 98-77, closes for new applicants on July 2, 1987. Over 50,000 long-term unemployed veterans have been put back to work under VJTA. In spite of the documented success of this program, the President's budget includes no proposal to extend VJTA.

4. The President's budget recommends the reduction of 16 FTEE in the Vocational Rehabilitation and Counseling program. VR&C program data shows increases in workload and unacceptable backlogs.

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

1. The President's budget proposes to increase the funding fee paid by veterans who obtain a VA-guaranteed home loan from 1 to 2.5 percent of the loan amount. Similar proposals were presented during the 99th Congress. The current 1 percent origination fee is scheduled to expire on September 30, 1987.

2. The President's budget calls for a reduction in the percent of properties which the VA sells with VA (vendee) financing. Current law requires the VA to sell at least 60 percent but no more than 75 percent of its acquired properties with vendee financing. By offering financing on properties which it holds for sale, the VA is able to dispose of many properties in a timely manner at the appraised value. The VA routinely discounts its asking price by 10 percent when a purchaser obtains non-VA financing. The President's budget proposes that the VA sell no more than 60 percent of its properties with vendee financing.

3. The President's budget recommends repealing the Administrator's authority to set the maximum interest rate at which lenders can make guaranteed loans. Instead, the lender and the veteran would be authorized to "negotiate" a reasonable interest rate.

4. The President's budget recommends an extension of the expiring legislation which determines when the Administrator should purchase a defaulted property securing a VA-guaranteed loan. These standards were established as part of the Deficit Reduction Act of 1984 and will cease to have effect on October 1, 1987.

5. The Veterans' Administration's present policy is to sell loans it makes on acquired properties to private investors. In order to obtain the best price for such loans, the VA usually sells the loans "with recourse". This means that in the event of default, the VA will purchase the loan. The budget proposes that all future sales be made without recourse. According to the VA, this change in policy will result in an average loss of 30 percent of the face value of the loan.

6. A related policy change is the President's proposal that all of the VA's current loan portfolio be sold over the next three years. This recommendation could result in the VA's selling all of its assets without consideration of market conditions, resulting in a considerable loss on the "book value" of these loans.

MEMORIAL AFFAIRS

The President's budget would save $31 million by making the $150 plot allowance payable only to disabled veterans in receipt of VA compensation or pension or indigent wartime veterans who die without sufficient resources for burial and whose remains are unclaimed. Under current law, payment of the plot allowance is authorized for any honorably discharged veteran who is interred in a private or State veterans' cemetery.

AVERAGE EMPLOYMENT

Although an increase of 12 positions has been requested for the Loan Guaranty Service, loan guaranty activity rose dramatically last year and several stations are still backlogged. Based on current workload reports which indicate some regional office backlogs in both the issuing of Certificates of Reasonable Value and in default processing, it is unclear whether this is enough personnel to clear up these backlogs as well as proceed with the normal course of business which is projected to be similar to the high levels experienced during fiscal year 1986.

The Department of Memorial Affairs is expected to lose 2 positions. From 1977 to 1985, DMA workloads for interments and gravesites maintained increased by 36.4 percent and 22.4 percent respectively while supporting FTEE levels increased by only 6 percent.

ONE PERCENT "PRODUCTIVITY" INCREASE

Each Subcommittee has identified employment reductions which are of special concern because of increased workload, decreased quality, or deteriorization of timely service. Overall, this is the third year in which a so-called "one percent productivity increase"

has been assessed against the Veterans' Administration's current services budget level. Using an adjusted fiscal year 1987 base of 222,500 VA employees, a one percent "productivity" improvement translates to a decrease of 2, 250 employees, with an accompanying reduction of some $68 million agency wide. Restoration of these cuts would mean that DM&S employment would increase by approximately 1,900 employees and employment supported by the GOE account would increase by approximately 300 employees.

BACKGROUND AND ANALYSIS

SUBCOMMITTEE ON HOSPITALS AND HEALTH CARE

FUNDING FOR CATEGORY C VETERANS

The proposed VA budget for fiscal year 1988 provides no funding for the care of veterans who are eligible for care as Category C veterans. As a practical matter, this is inconsistent with congressional intent which allows care to be furnished to such veterans if resources and facilities are available and if the veteran agrees to make certain payments to the VA.

Title XIX of Public Law 99-272, the Veterans' Health-Care Amendments of 1986, revised the eligibility for VA medical care benefits. The Act established two groups of VA health-care eligibilities particularly with regard to hospital care.

The first group (now known as Category A) is *required* to be provided needed hospital care through VA facilities, and in non-VA facilities with certain restrictions. Category A veterans include: veterans with service-connected disabilities; former prisoners of war; veterans exposed to certain herbicides and ionizing radiation; veterans disabled as a result of VA medical treatment or vocational rehabilitation; veterans of the Spanish-American war, Mexican border period, or World War I; and nonservice-connected veterans with one dependent whose income does not exceed $18,000 (or $15,000 for a single veteran) increased by $1,000 for each dependent in excess of one.

The second group of veterans established by Public Law 99-272 is comprised of those veterans not in Category A. When the VA implemented Public Law 99-272, this group of veterans was divided into two groups called Category B and Category C. What veterans in Categories B and C have in common is that the VA may furnish them needed hospital care if resources are available. Hospital care may be furnished to Category B veterans whose incomes are above $15,000 but not to exceed $20,000 for a single veteran and $18,000 but not to exceed $25,000 for a veteran with one dependent. Category C veterans (those with incomes over $20,000 with no dependents and $25,000 with one dependent increased by $1,000 for each additional dependent) may be furnished hospital care if resources are available and if the veteran agrees to make certain payments in connection with that care.

The eligibility for care for veterans in Categories B and C within the available resources is intended—and historically has been intended under various eligibility arrangements—to ensure that the VA medical care system is fully utilized. The reason for incorporating this flexibility is that demand for medical care is random: no one can predict exactly on a given day how many people will need and apply for care. Over time it is possible to mathematically pre-

dict on the average how many beds a defined population may need, but from day to day the capacity to provide care may vary from no extra beds available to many extra beds available. This same variability in demand occurs with other factors of medical care also. Thus, at a given time, after Category A veterans have been treated, any extra capacity, often referred to as "available resources", is expressly to be used to care for Category B and C veterans.

The obvious difficulty in implementing the proposed policy of denying funds necessary to provide Category C care but not refusing Category C veterans outright, leaving them eligible within available resources, is this: the order in which veterans apply for care is also random. That is, Categories A, B, and C veterans arrive in mixed order both during a given day and during the year. Not all Category A veterans seek care, followed by Category B veterans and so on. Indeed, it is theoretically possible for all Category C veterans to apply for care before all Category A veterans. The decision to treat a Category C veteran depends on the existence of available resources and the perception that resources are sufficiently available in the future to care for all Category A veterans. The practical result of the proposed policy is obviously the denial of some medical care to all categories of veterans with the increased possibility of denial of care to the Category C veteran.

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE

COMPENSATION

1. The Administration also proposes that future compensation COLAs be indexed to the changes in the Consumer Price Index in the same manner as is provided for the pension program. Compensation for service-connected veterans is probably the highest priority issue for the Committee and COLA legislation provides the vehicle for a thorough review of the program on an annual basis. Many refinements and liberalizing provisions have been enacted by making them a part of the high priority, virtually veto proof, compensation COLA bills. An example of the special consideration that could be lost through indexing is the adjustments in the COLAs in the past to recognize the difference between the needs of the 100 percent totally disabled veterans and those who are partially disabled and are able to do some type of work. The totally disabled veterans, in many cases, have received higher percentage increases than the partially disabled.

2. About three years ago, responding to a Committee request, the VA agreed to conduct a study on the subject of examination and evaluation of hearing loss. The VA completed the study in 1986 and prepared a change to the rating schedule based on the current state of the art in examining individuals with hearing loss. There would be an estimated $30 million benefit cost involved in the schedule change because the old maximum 80 percent level of disability would be increased to 100 percent in a small number of cases. Certain other rating percentiles would also be increased. Because the Rating Schedule is part of the Code of Federal Regulations, the agency was required to submit the proposal to OMB for review. OMB disapproved the change to the rating schedule, saying

there was insufficient justification to support the average loss of hearing capacity at each level of disability, and recommended a thorough economic validation study. For the first time in history, impairment of earning capacity will be measured in budgetary requirements rather than in percentage of impairment.

GENERAL OPERATING EXPENSES

1. The budget calls for a reduction of 255 staff in the regional office activity that processes disability, death and education claims. Current service is grossly deficient and a decrease in personnel will aggravate the deficiency. For example, 23 out of 59 offices have backlogs which exceed the established tolerance levels.

The following basic end-products (types of claims) are out-of-line in timeliness criteria:

PERCENT OF CLAIMS COMPLETED IN LESS THAN 60 DAYS, 90 DAYS, AND 6 MONTHS

End Product Claim for	60 days		90 days		6 months	
	Actual	Standard	Actual	Standard	Actual	Standard
Initial compensation	17	34	34	50	79	95
Reopened compensation	45	55	61	80	91	98
Original DIC	44	60	64	80	91	98
Notice of disagreement (appeals)	74	85	85	95	97	98
Initial disability pension	36	50	55	70	90	98
Initial death pension	62	85	79	90	97	98

Note that performance is not even close to standard in claims adjudicated within 60 or 90 days in any category, and approaches standards for completion in 6 months in only 2 categories. In no category are standards met or exceeded. A decrease in personnel, as provided for in the proposed budget, would only exacerbate this problem.

2. The budget requests $34.4 million for continuation of the Department of Veterans Benefits (DVB) computer modernization initiative undertaken last year. It is an increase of $8 above 1987. This is a 6-year project designed to assist Regional offices in providing more efficient service to veterans and will cost $150 million overall. Funding requested for fiscal year 1988 is $7.8 million more than fiscal year 1987 and is urgently needed to acquire computer hardware and software for the project.

SUBCOMMITTEE ON EDUCATION, TRAINING AND EMPLOYMENT

1. The President's budget includes a recommendation to make the New GI Bill a permanent program. It also authorizes the Department of Defense (DOD) to budget for all benefit costs associated with the New GI Bill. Under current law, this education program for the All Volunteer Force terminates for new entrants on July 1, 1988. The basic benefit is funded by the Veterans' Administration (VA) and DOD funds all costs associated with the "kicker" program and the program for the reserve components.

Since its implementation on July 1, 1985, the New GI Bill has proved to be a great success. Although the primary purpose of this program is to provide a readjustment education benefit to our young men and women following service in the All Volunteer Force, the bill has also established itself as a significant recruitment and retention tool for the Armed Forces. Participation is high in all branches of service and recruit quality has improved significantly. Because of its success, the President's budget includes a proposal to make the New GI Bill a permanent program. The Chairman of the Committee has introduced legislation to make the New GI Bill permanent which is cosponsored by more than 140 Members of the House, including most members of the Committees on Veterans' Affairs and Armed Services.

The primary purpose of the New GI Bill is to assist in the readjustment of members of the All Volunteer Force to civilian life after their separation from military service. It is, therefore, appropriate that the Veterans Administration fund that portion of the program, the basic benefit, which is the readjustment benefit available to all those in the active forces who choose to participate in the New GI Bill. The precedent for this budget allocation is clear. The World War II GI Bill, the Korean Conflict GI Bill, and the Vietnam Era GI Bill have all been paid for by the Veterans Administration.

2. Included in the President's budget is a proposal to repeal the authority that permits the VA to make education loans, effective October 1, 1987. This is the fourth year the Administration has recommended terminating this program, citing an excessively high default rate.

The education loan fund is used to provide loans of up to $2,500 to persons training under chapter 34 or 35, U.S.C., but past their delimiting date with unused entitlement, and to veterans enrolled in flight training under chapter 34. Repayment is not required and interest is not charged until 9 months after the date the borrower ceases training. Loan amounts of more than $600 must be repaid within a period of 10 years; smaller amounts must be repaid in a proportionately shorter time.

No appropriation by Congress is required for this program. The fund balance and anticipated collections will be sufficient to support the expected volume of new loans, and authority exists to supplement this fund as required from the readjustment benfits appropriation.

3. Public Law 98–77, the Emergency Veterans' Job Training Act of 1983, established a program of job training assistance to relieve unemployment among Korean Conflict and Vietnam Era veterans. This program, now known as the Veterans' Job Training Act (VJTA), was subsequently extended and improved by Public Laws 98–543, 99–108, and 99–238. Under current law, the program closes for new applicants on July 2, 1987.

Over 50,000 long-term unemployed veterans have been put back to work under VJTA. A Congressionally-mandated study and evaluation of this program concluded that VJTA has produced statistically significant positive effects on the employment rates and the earnings levels of participating veterans in the short-run and in the long-run. These positive effects experienced by participants are

shared by both the completers of the program and those who dropped out of VJTA.

4. The President's budget recommends the reduction of 16 FTEE in the Vocational Rehabilitation and Counseling program. VR&C program data shows increases in workload and unacceptable backlogs.

Estimated data for fiscal year 1986 showed 23,700 disabled veterans would receive rehabilitation services in fiscal year 1986. Actual year end data showed that 25,776 veterans actually received services in fiscal year 1986. This increase of 8.75 percent over the estimate is expected to increase the fiscal year 1987 and fiscal year 1988 estimates by the same percentage. The Vocational Rehabilitation Specialist (VRS) workload has gone from 142 per VRS in fiscal year 1984 to 177 per VRS in fiscal year 1986. AVRS can provide minimal services at a caseload level of 150 veterans. Reasonable quality services can be provided at a caseload level of about 120.

Specific backlogs are shown in critical program areas. The average time from the point a veteran's application is received in the VA until that person's initial appointment is now 84 days. This is an increase of 10 days from this point in fiscal year 1985. Eighteen stations exceed the average, with a maximum time of 197 days.

A second critical area is the time a veteran is in Employment Services status. This status is measured from the point the veteran completes a rehabilitation program to the point where that person has been able to maintain suitable employment for 90 days. The average time a veteran remains in this status has increased from 155 days in fiscal year 1984 to 232 in fiscal year 1986.

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

1. The Administration is proposing that the Congress increase the user fee from 1 to 2.5 percent effective June 1, 1987. Similar proposals to increase the origination fee previously submitted to the Congress have been rejected for the last two years by both the House and the Senate. The implementation of such an increased fee would result in veterans being charged an average amount of $1500—up from $600—just for the privilege of using the program. In essence, the Administration, which has consistently opposed raising taxes for the general public, is recommending an increase in revenue of the expense of homebuying veterans. This proposal therefore could be construed as a form of selective taxation.

2. The Administration is also proposing that the VA sell at least 40 percent of acquired properties with VA vendee financing but no more than 60 percent. Although the Administration urges adoption of this proposal in an effort to cut back initial outlays, in actuality this proposal is counterproductive since it does not allow the VA the opportunity to maximize its potential revenue on the sale of acquired properties. There is no evidence that the current policy, which allows VA to finance between 60 and 75 percent of properties, is unreasonable.

Under a recent change in policy, the VA plans to sell approximately 10 percent of its loans without recourse in Fiscal Year 1987. While a test along these lines appears to be reasonable, the Administration's proposal to sell all of the VA's portfolio without recourse

over the next three years before the results of this small sample seems unjustified. The VA has indicated that there would be a 30 percent loss on the face value of these loans.

3. The Administration is proposing to allow for borrower/lender negotiated rates on guaranteed and vendee loans, thereby terminating the Administrator's authority to set interest rates. There is little doubt that veterans will pay higher rates than they do now with an administered rate. This will erode veterans' purchasing power, meaning that fewer veterans will be able to afford housing.

The use of "negotiated" interest rates could also increase VA claim costs and adversely affect the Loan Guaranty Revolving Fund. Since it is expected that "negotiated" interest rates would be higher than current VA established maximum rates, the VA's claim costs would increase, resulting in increased outlays from the Loan Guaranty Revolving Fund. Because the Government assumes most of the risk on the guaranteed mortgage, it has an obligation to the taxpayer to moderate interest rates to the maximum extent possible to minimize its financial exposure.

4. The Administration will also request continuation of the methodology used in determining whether or not to acquire a VA-guaranteed property in foreclosure. These standards which are scheduled to expire on October 1, 1987, require that the cost of holding a property be considered in determining whether or not to acquire a property.

Memorial Affairs

1. The Administration will also propose legislation to make the plot allowance payable only to disabled veterans in receipt of VA compensation or pension or indigent wartime veterans who die without sufficient resources for burial. At the time the Committee received the Administration proposal in the fiscal year 1982 budget to change the eligibility requirements for the basic burial allowance, the Office of Management and Budget stated that it did not want to simultaneously change the eligibility requirements for the plot allowance. OMB wished to keep this benefit intact so that the death certificates accompanying applications for the plot allowance could be used by the Government for statistical and research purposes.

The Committee concurred with OMB, and is unaware of any change in this requirement. In legislating the Grant-in-Aid Program for States to establish veterans' state cemeteries, it was contemplated that the State would be sharing some of the Federal Government's burden in meeting the burial needs of veterans. This plot allowance has also served as an incentive to states to establish such cemeteries. The elimination of the plot allowance would be counterproductive to this goal as well as a breach of faith.

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